

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6103

BILL NUMBER: HB 1009

NOTE PREPARED: Nov 5, 2009

BILL AMENDED:

SUBJECT: Child and Dependent Tax Credit.

FIRST AUTHOR: Rep. Day

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides a refundable income tax credit to individuals for certain household, child care, or dependent care expenses associated with an individual's gainful employment. It provides that the amount of the credit is 50% of the amount allowed for the federal child and dependent care credit. The bill also provides that an individual whose federal adjusted gross income exceeds \$45,000 is not eligible for the credit.

Effective Date: January 1, 2011.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the new tax credit. The DOR's current level of resources should be sufficient to implement the new tax credit.

Explanation of State Revenues: *Summary* - This bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who claim the federal Child and Dependent Care Credit and whose federal AGI is at or below \$45,000 beginning in tax year 2011. The revenue loss due to this bill could potentially total about \$8.8 M in FY 2012, and could potentially decline by about 2.7% per year. In contrast, if the eligible population and credits claimed remain static in the coming years, the revenue loss could potentially total about \$9.8 M in FY 2012 and each year thereafter.

Background Information - The bill creates a refundable AGI Tax credit for individual taxpayers who are eligible for and claim the federal Child and Dependent Care Credit. Under the bill, the AGI Tax credit is equal to 50% of the federal credit claimed in the taxable year, and is limited to taxpayers with federal AGI

of \$45,000 or less. (Note: An explanation of the federal credit is presented below.)

In 2007, about 40,000 Indiana residents with federal AGI of \$45,000 or less claimed about \$19.7 M in credits for qualified child and dependent care expenses. From 2003 to 2007, this group declined by roughly 3.8% and credits claimed by this group declined by about 2.7%. Since the credit is effective beginning in tax year 2011, the fiscal impact would begin in FY 2012.

Federal Child and Dependent Care Credit: The federal credit applies to qualifying child or dependent care expenses paid in order for the taxpayer to be gainfully employed. To be eligible for the credit, a taxpayer must incur employment-related expenses in providing care for one of the following qualified individuals:

- (1) A dependent of the taxpayer who has not attained the age of 13.
- (2) A dependent of the taxpayer who is physically or mentally incapable of caring for himself or herself and resides with the taxpayer for more than one-half of the year.
- (3) The taxpayer's spouse if the spouse is physically or mentally incapable of caring for himself or herself and resides with the taxpayer for more than one-half of the year.

Qualifying expenses include expenses paid for household services and for the care of a qualifying individual. Services outside the home qualify if they involve the care of a qualified child or a disabled spouse or dependent who regularly spends at least eight hours a day in the taxpayer's home. The maximum amount of qualified child and dependent care expenses to which the credit may be applied is \$3,000 for one qualifying individual and \$6,000 for two or more qualifying individuals.

The credit amount is equal to a percentage of the qualified child and dependent care expenses. The applicable percentage ranges from 20% to 35% depending on the taxpayer's federal AGI. If the taxpayer's federal AGI is \$15,000 or less, the applicable percentage is 35%. The credit is reduced by one percentage point per \$2,000 of AGI in excess of \$15,000. The applicable percentage is fixed at 20% for taxpayers with federal AGI exceeding \$43,000. Thus, the maximum federal credit amount is \$1,050 for expenses relating to one qualifying dependent and \$2,100 for expenses relating to two or more qualifying dependents. This means the maximum AGI Tax credit under the bill would range from \$525 to \$1,050.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: OFMA Federal Tax Database, 1996-2005; Internal Revenue Service, Statistics on Income, Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Years 2003-2007.

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